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World Grain Trade: Implications of a Changing Market [redacted] 25X1

An Intelligence Assessment

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GI 85-10169
June 1985

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World Grain Trade: Implications of a Changing Market

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An Intelligence Assessment

This paper was prepared by the Office of Global Issues. Comments and queries are welcome and may be directed to the Chief, Economics Division, OGI

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GI 85-10169
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World Grain Trade: Implications of a Changing Market [redacted] 25X1

Key Judgments

Information available as of 17 June 1985 was used in this report.

Export drives by major competitors in the world grain market will produce problems for US interests on two fronts over the rest of the decade. First, although the competitive advantage the United States holds in the production and export of coarse grains such as corn is likely to continue, US farmers will face stiffer competition in the world grain markets for the remainder of the decade. In fact, we see a prospect of no US grain export growth through 1990 unless competitor marketing strategies are offset. Our analysis indicates that the US share of the world wheat market could plummet from its high of 48 percent just four years ago to 30 percent in marketing year 1986 and as low as 25 percent by 1990. [redacted] 25X1

Concurrently, Soviet dependence on US grain is likely to continue to diminish. With competitor export policies directed toward expansion and the window of opportunity provided by the US partial embargo of 1980, the United States, during 1980-85, has provided Moscow with an average of only a third of its grain imports; this contrasts with the last half of the 1970s when the United States supplied Moscow with an average of two-thirds of its grain imports. Major US competitors can now supply Moscow with 25 million tons of grain annually and will be capable of supplying more by the late 1980s. Indeed, Moscow—the major buyer in a depressed grain market—will gain as all suppliers are forced to compete for Soviet grain business. [redacted] 25X1

Foreign governments' policies to increase their share of the grain export market have been a key factor in shifts in world grain market trade. This element is more important, in our view, than the rapid appreciation of the dollar. Each major competitor has export expansion programs under way, relying heavily on price cutting, credit subsidies, artificially low transportation rates and hidden bonuses. By 1990, [redacted] 25X1

- Canada plans to increase grain exports by 25 percent.
- Australia plans to boost grain exports by one-third.
- Argentina plans to nearly double grain exports.

The European Community is continuing its aggressive policy to market its rising exportable surpluses and will reportedly no longer adhere to its self-imposed limit of 14 percent of the global grain market. [redacted] 25X1

Barring major crop disasters, other factors at play also assure a buyer's market and heightened competition through the rest of the 1980s. Developed-country grain markets are saturated; import demand has not increased since the mid-1970s. Meanwhile, policy reforms and sustained

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technological improvements are reducing grain import demand in China, India, and the European Community. The LDCs are the only major group of countries likely to increase their demand for grain in the near term. With the debt problems faced by many of these countries, however, concessionary terms will be a determining factor in closing a deal.

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We believe that any existing strains between the United States and its allies could be stressed further as a result of slow growth in world grain markets and aggressive export actions by US allies. Relations with Canada and Australia may be tested by US export programs, and, although the EC reportedly wants to avoid a trade war, it is unlikely to back away from its aggressive tactics in traditional US markets. With a record stock buildup this year, the EC may even attempt to match some US grain export initiatives.

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World Grain Trade: Implications of a Changing Market

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Setting the Stage: Surging, Then Flat Demand for Imported Grain

During the 1970s, global grain trade increased by 100 million metric tons, doubling in volume. The major importers became increasingly dependent on the world grain market, according to US Department of Agriculture (USDA) statistics. In Japan, for example, imports rose by two-thirds during the 1970s. The USSR shifted from a net exporter to the world's largest importer. China's yearly grain imports during the 1970s more than tripled to 11 million tons. Eastern Europe's imports more than doubled, and, among developing world countries, OPEC and middle-income LDCs more than tripled their grain purchases while low-income LDCs increased their total imports by more than 50 percent.

Several factors accounted for this surge, including:

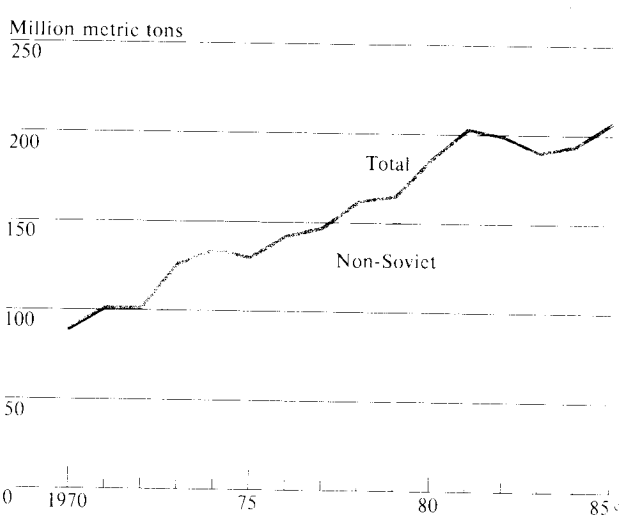
- The decision of LDCs, especially in Africa, to emphasize the production of cash crops rather than food grains.
- Rising incomes, especially in developed countries like Japan, which dramatically increased the demand for livestock products and the consequent need for animal feed.
- Periodic crop shortfalls in centrally planned economies, such as the USSR's, and in important LDCs.

This rise in world grain imports proved a boon to the US agricultural sector and international payments balance as US grain exports increased from 35 million to 109 million tons between 1970 and 1980.

In the 1980s several major economic events halted this upward sweep in global grain trade (figure 1) and caused shifts in the pattern of trade:

- The 1980 US partial grain embargo severely curtailed US grain exports to Moscow, and foreign competitors quickly stepped in to fill the gap.
- The global economic recession of 1982-83 greatly impeded many countries' ability to import grain—grain trade worldwide dropped by 10 million tons.

Figure 1
Global Grain Trade,[a] 1970-85[b]



[a] Grain refers to wheat and coarse grains.
[b] All years are marketing years (1 July–30 June). For example, 1985 refers to 1 July 1984–30 June 1985.
[c] Estimated.

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- The continuing debt service problems and economic austerity of many LDCs have kept their grain imports down even as global economic recovery has begun.

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Two major changes in structural demand for grain also have emerged during the 1980s. First, China, previously a major grain buyer, has undergone agricultural policy reforms that have successfully raised production. China is now the number-one producer of wheat in the world. China's grain imports, which represented 8.2 percent of the world market as recently as 1983, have fallen off to 4.6 percent in 1985. This loss in sales is important to the United States since China has been a major US market (table 1). Halfway

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Table 1
World Grain Imports by Source, 1975-85 [a]

Million metric tons

	1975-79 Average	1980-85 [b] Average
World		
From the United States	79.8	102.4
From non-US sources	76.7	105.5
Western Europe		
From the United States	22.8	17.1
From non-US sources	23.4	22.0
USSR		
From the United States	9.5	12.8
From non-US sources	5.5	24.4
China		
From the United States	1.4	5.8
From non-US sources	4.8	6.6
LDCs		
From the United States	27.5	42.6
From non-US sources	26.0	38.0

[a] All years are marketing years (1 July–30 June). For example, 1985 refers to 1 July 1984–30 June 1985.
[b] 1985 data are estimated.

through 1985, China has not purchased any US grain, and grain purchases from all sources stand at about 2 million tons compared with 9.4 million tons total last year. Beijing has not renewed any of its long-term trade agreements (LTAs) in recent months. China has already sold 2.7 million tons of corn—of which at least 1 million tons is to Moscow—and is likely to export as much as 3.5 million tons of grain this year.

A second major shift has occurred in the developed-country markets. In contrast to the rapid expansion of the 1970s, many developed-country markets are now saturated, and imports have declined in the 1980s. Factors contributing to this absolute decline include sustained production increases resulting from the successful use of capital inputs, such as high-yielding seed and fertilizer by Western Europe. Implementation of agricultural policies such as those of the European Community directed toward self-sufficiency in basic agricultural commodities has also led to reduced grain imports in the 1980s. Indeed, the EC has increased its wheat production by 50 percent since 1980. The EC—historically a net coarse grain importer—is likely this year to become a net coarse grain exporter for the first time as total grain imports have dropped by more than 40 percent since 1980 (figure 2).

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Changes in dietary consumption patterns are also impacting on developed-country markets. Consumers are shifting away from red meat toward more poultry. Because poultry are more efficient at converting grain into protein, relatively less feedgrains are being demanded.

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Finally, in the 1980s, with other markets constricting, Moscow has emerged as the one big player. Indeed, Soviet grain purchases in marketing year (MY) 1985 (1 July 1984–30 June 1985) will be at record levels, and our analysis shows that, excluding the rise in Soviet imports, global grain trade has remained flat since 1980.

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Increased Foreign Competition: Role of Government Policies

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Competition since 1980 has intensified in part because non-US sellers have attempted to carve out increasing shares of the world grain market. Canada, Australia, and Argentina found a ready Soviet market during the US partial grain embargo in 1980 and have nearly doubled their sales to the USSR since that time. These three countries now have about 50 percent of the Soviet market, compared with just under 30 percent during 1975-79. The EC also has aggressively jumped from 2 percent to just under 10 percent of the Soviet market since the US embargo (figure 3).

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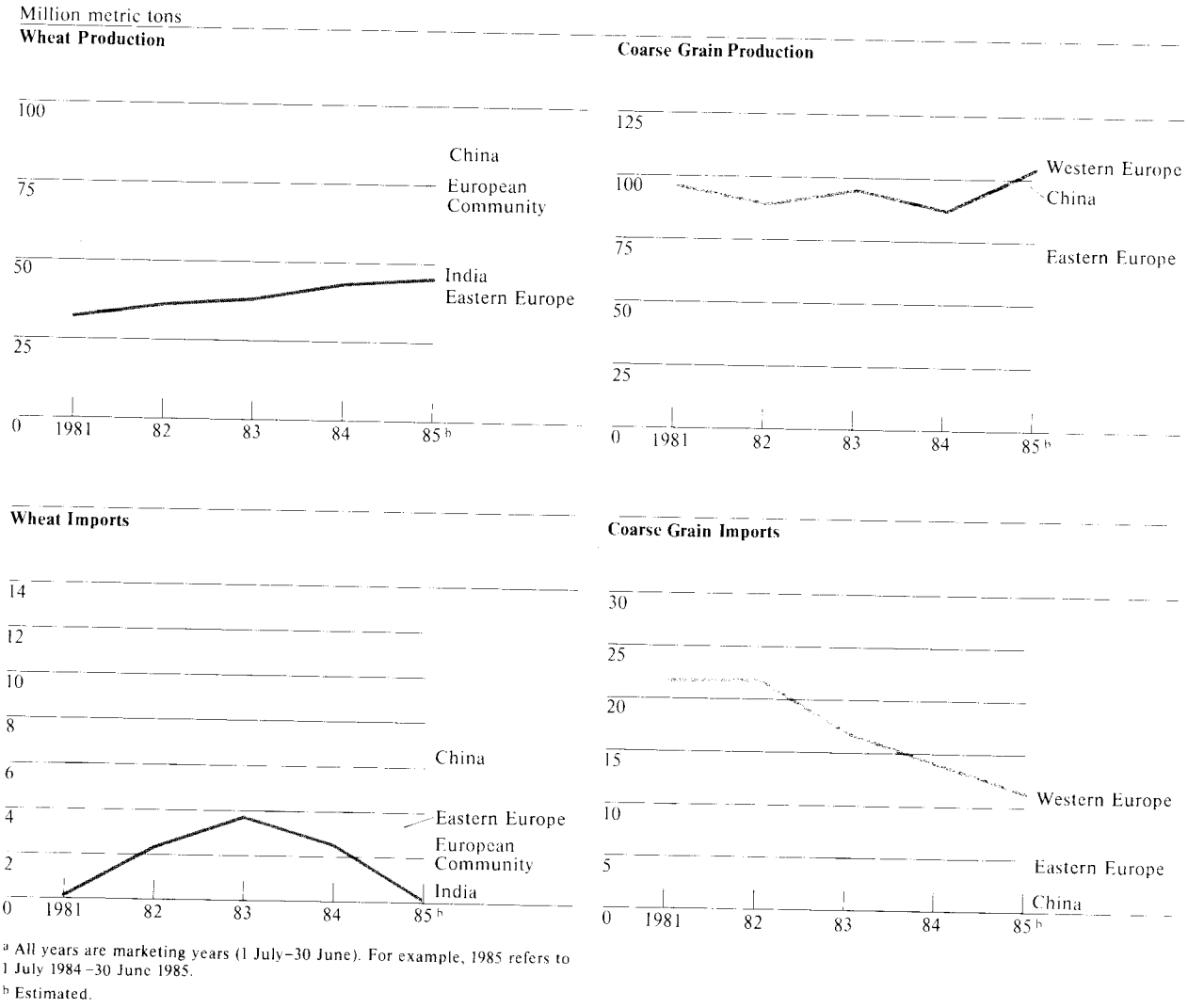
Buoyed by the window of opportunity provided by the grain embargo, Canada, Australia, and Argentina have steered their agricultural policies toward increasing grain production for foreign markets. Since 1980 the average wheat area harvested by these

Figure 2
Grain Production and Imports for Selected Countries and Regions, 1981-85[a]



[a] All years are marketing years (1 July–30 June). For example, 1985 refers to 1 July 1984–30 June 1985.

[b] Estimated.

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competitors has increased 18 percent. Average coarse grain area harvested also has increased almost 25 percent (table 2). By comparison, US policies in the 1980s have been directed at taking land out of production under the payment-in-kind (PIK) program. Furthermore, while area harvested in the EC has remained constant, generous government production incentives have boosted grain output by more than 25 percent since 1980.

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For the rest of the 1980s, each of the major competitors has well-defined government goals and policies to increase grain production and exports, pointing to stepped-up competition for the United States.

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Marketing Year 1985 Highlights

In marketing year 1985 (1 July 1984–30 June 1985) world grain production is likely to reach a record level of about 1,310 million metric tons—up 11 percent over last year's level. The major increase in world grain production in MY 1985 has come from the United States, which raised its grain output by a hundred million tons following the heavy crop reduction from the PIK program and drought in MY 1984. The EC, with ideal weather and widespread use of high-yielding seed varieties, harvested a record wheat crop of 76 million tons—5 million more than the United States on half the land area. China, India, and Eastern Europe all experienced record crop production as well. Offsetting this, however, was the USSR with its sixth consecutive harvest falling vastly short of target. We estimate that the 1984 Soviet grain crop was about 180 million tons—down 15 million tons from 1983 and 60 million tons short of the 240-million-ton target.

For the major grain exporters, only the United States and the EC had bumper crops. In the other major competitor countries—Canada, Australia, and Argentina—weather problems reduced crops well below record levels, steering some grain trade to the United States. *Wheat production by those three countries totaled 61 million tons in MY 1984 but fell to 53 million tons in MY 1985. Canada, with production down 20 percent to 21 million tons, reportedly was forced to turn down some potential grain sales. Coarse grain production by Canada, Australia, and Argentina was not greatly affected by weather, and production this marketing year slightly exceeded MY 1984's level of 48 million tons. South Africa again is experiencing drought conditions, and it appears likely that for MY 1985 Pretoria will once again have to import grain. Despite reduced crops, US competitors will edge out the United States with a share of the grain market slightly exceeding 50 percent due to aggressive competitor export policies.* 25X1

Global grain consumption will also reach an alltime high at an estimated 1,286 million tons. However, this represents only a 3-percent increase over MY 1984, and world stocks will still grow by 25 million tons or 15 percent. Global grain trade, estimated by USDA at 209 million tons, will also be a record—up 8 percent over last year and 10 percent higher than trade levels during the global recession of 1982-83. 25X1

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The increase in global grain trade, however, is due primarily to increased imports by Moscow—which we estimate will be about 50 million tons in MY 1985, some 18 million tons higher than last year. Indeed, global grain trade, excluding Soviet imports, has remained relatively unchanged in the 1980s. 25X1

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Canada

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the Canadian Wheat Board (CWB) in November said the government of Prime Minister Mulroney plans to encourage farmers to increase grain acreage by 4 to 5 percent in MY 1986 and wants wheat production increased from 26 million tons to 32-35 million tons. Furthermore, Canada plans to increase exports 25 percent—to 33 million tons by 1990, according to press reporting. Canadian officials have indicated that the 1990 goal would be relatively easy to attain by expanding area planted by 4 to 5 percent per year, by using genetically improved seeds, and by improving cultivation practices such as increasing fertilizer application rates. Indeed, according to US Embassy reporting, in February, Ottawa began licensing a high-yielding wheat variety that reportedly has shown yields up to 30 percent above traditional Canadian levels. 25X1

Ottawa relies on direct and indirect subsidies to stimulate grain production.[1] Under the Western Grain

[1] Under the Western Grain Stabilization Program, Ottawa guarantees that the net returns to production for graingrowers in any given year will not fall below the average of the previous five years. This policy stimulates production even when demand is depressed. 25X1

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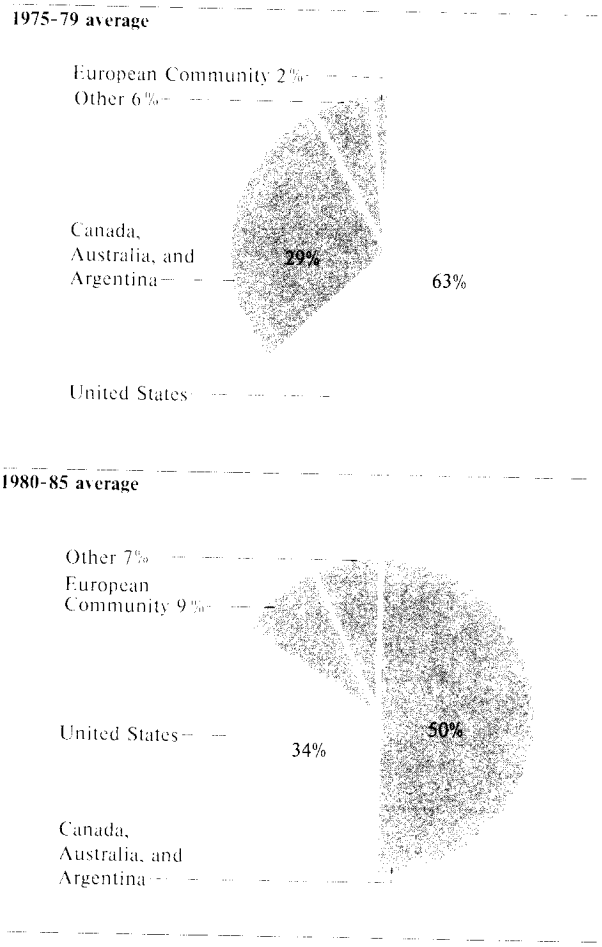
Figure 3
USSR Grain Imports: Reliance on Non-US Sources



Stabilization Program, Ottawa's cost for subsidizing farmers may approach $585 million for the 1985 grain crop, according to Embassy reports. Under the Western Grain Transportation Act, Ottawa also subsidizes the cost of moving grain to export points by keeping rail rates artificially low. This year Ottawa set new, higher rail rates—the first since 1898

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Ottawa has undertaken other measures designed to eliminate bottlenecks that now limit exports:

- Since 1982 Ottawa has committed a total of $2.1 billion in aid to the railroads to increase grain-handling capacity. the government has purchased over 8,000 new rail grain hopper cars to modernize the rail system.

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- Ottawa last year proposed an additional 10-year, federally funded rail improvement program totaling $13.4 billion. This program, if implemented, will further streamline the rail system, making Canadian grain more readily available for export markets.

- Ottawa is also focusing its efforts on expanding port capacity. Canada is constructing a $210 million grain terminal at Prince Rupert, British Columbia, scheduled to open this October. The new facility is expected to raise Canada's west coast grain-handling capabilities by 25 to 30 percent and provide a 30-percent increase in storage capacity.

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To market its grain and gain the competitive edge on the United States, Canada has been offering lower prices and long-term credits. According to the US Embassy in Paris, the Canadian delegation to the OECD, in May 1984, attributed the success of Canada's grain export policy to the use of both direct credit and credit guarantees.

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Canada also relies heavily on the use of LTAs—as much as 60 percent of Canadian grain exports are marketed this way.

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Million metric tons

Table 2
Canada, Argentina, and Australia:
Wheat and Coarse Grain Supply and Use

Marketing Year [a]	Area Harvested		Production		Domestic Use		Exports	
	Wheat	Coarse Grains	Wheat	Coarse Grains	Wheat	Coarse Grains	Wheat	Coarse Grains
Canada								
1980	10.5	7.1	17.2	18.9	5.5	18.5	15.0	3.8
1981	11.1	8.0	19.2	22.2	5.0	18.0	17.0	5.5
1982	12.4	9.2	24.8	26.0	5.2	18.3	17.6	7.2
1983	12.6	8.9	26.8	26.7	5.1	19.4	21.2	7.1
1984	13.7	7.9	26.9	21.3	5.9	18.5	20.5	6.8
1985 [b]	13.2	8.0	21.2	21.9	5.3	18.3	17.2	4.2
Argentina								
1980	4.8	4.8	8.1	10.6	4.0	5.7	4.8	5.3
1981	5.0	6.4	7.8	21.8	3.9	6.5	3.9	14.2
1982	5.9	6.4	8.3	18.4	4.3	6.6	4.3	10.2
1983	7.3	6.3	14.5	18.1	4.4	6.9	7.5	11.7
1984	6.9	6.2	12.0	17.4	4.5	6.9	9.7	11.0
1985 [b]	5.9	6.2	13.2	19.4	4.6	7.1	7.5	11.7
Australia								
1980	11.2	4.2	16.2	6.2	3.4	2.9	15.0	4.1
1981	11.3	4.3	10.9	5.2	3.5	3.1	10.6	2.3
1982	11.9	4.8	16.4	6.6	2.5	4.1	11.0	3.4
1983	11.5	4.5	8.9	3.8	4.1	3.3	8.1	1.0
1984	12.9	6.1	21.8	9.3	3.3	2.8	12.0	5.5
1985 [b]	12.2	5.8	18.6	8.4	3.0	3.3	15.3	5.6

[a] 1 July–30 June. For example, 1985 refers to 1 July 1984–30 June 1985.
[b] Estimated.

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This strategy is working. During MY 1983 Ottawa exported record amounts of wheat—up 22 percent over MY 1982 in contrast to an 18-percent drop in US wheat exports. In MY 1984 Canadian wheat exports were up again as Ottawa became even more aggressive—offering credits of two and three years and discounting prices. This year Canada was hit with poor weather and an estimated 10-percent drop in grain production, forcing Ottawa to concentrate on fulfilling its LTAs and satisfying traditional customers such as Japan and the United Kingdom. However, as part of its overall market strategy, Canada appears increasingly willing to discount grain prices to capture sales.

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Argentina

The Alfonsin government views agriculture as a key sector in stimulating economic growth and earning hard currency to pay its debt. According to press reporting, Argentina plans to nearly double grain exports from 20 million tons currently to 35-40 million tons by the early 1990s. This could generate an additional $2.5-3 billion annually in hard currency export earnings.[2]

To encourage greater production and exports, the Alfonsin government is intensifying its efforts across several areas. In January, Buenos Aires applied to the World Bank for a loan of $87 million for dredging and expanding the port of Bahia Blanca—the main terminal for grain exports—and for other basic infrastructure improvements. According to Argentine press reports this expansion will increase the port's export capacity from its current 5 million tons to 11 million tons and will reduce congestion and delays in ship loading. A grain elevator explosion at Bahia Blanca in March, however, may delay part of the proposed expansion several months until the damage can be repaired.

To increase production, the Alfonsin government has recently implemented a new fertilizer program that reportedly improved this year's yields and will be expanded to triple fertilizer use by 1987. Even though Argentina is one of the world's major wheat exporters, yields are relatively low—nearly 40 percent below those of the United States. By 1987 Buenos Aires plans to have up to 2.2 million hectares—more than twice the current level—as fertilized cropland.

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In terms of land in cultivation, we estimate that an additional 6-8 million hectares—about 35 percent of present grain acreage—potentially can be brought into grain cultivation, according to USDA figures 25X1 25X1 This acreage, although consisting of less productive lands, could accommodate increased grain production with investments in drainage systems and fertilizer. 25X1

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The Alfonsin government has also announced a number of financial measures designed to increase production of grain:

- This year the government reduced the tax on fertilizer and herbicides from 18 percent to 5 percent. 25X1
- The National Bank of Argentina in November was authorized to provide short-term credit to farmers to cover grain production costs.
- Buenos Aires has increased research funds for the National Institute of Agricultural Technology for developing and disseminating high-yielding, fertilizer-responsive hybrid seeds. 25X1

Finally, wheat support prices were announced prior to planting rather than at harvest to encourage increased production. Buenos Aires also announced a 15-percent increase in the support price for wheat and reductions in export taxes for many of the grain crops. Moreover, an increased share of export tax revenues from grain

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are to be returned to the agricultural sector through capital reinvestment programs, increased funding of agricultural research, and increased credit assistance.

Argentina's main marketing strategy is to undercut the US price. Prices as much as $40 per ton cheaper have been reported:

- According to US Embassy reporting, Peru purchased 50,000 tons of Argentine wheat in December for $117 per ton—the closest US offer was $153 f.o.b. gulf ports.
- in January, when China was backing out of its LTA with the United States, Buenos Aires sold Beijing 400,000 tons of wheat—the first sale to China in almost two years.

Argentina plans to increase its share of the Latin American grain market while becoming less dependent on Soviet grain sales. In order to move in this direction, Argentina—despite its own serious debt problem—is now offering credits.

Argentina plans as well to penetrate new markets in the Pacific region where Asian per capita incomes are rising.

Australia

the head of the Australian Wheat Board (AWB) stated in late October that he foresees no more than a 2-percent increase in annual growth of world grain consumption through 1990. The AWB official indicated that Australia's plans, however, were to expand its wheat production from the current 18 million tons to as much as 23 million tons—an increase of nearly 30 percent.[3] Exports are planned to increase from about 15 million tons to as much as 20 million tons per year—a 33-percent increase.

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According to the AWB, wheat production currently covers about 12 million hectares or about a quarter of Australia's agricultural lands. The area sown to wheat, according to the AWB, has been increasing by 5 percent each year. According to the agricultural attache in Canberra, Australian wheat policy is to produce "all it can." If the United States were to cut back on its grain production, Australia, rather than reciprocating, would likely see the action as a chance to capture additional markets. For MY 1985 the Australian Bureau of Economic Analysis estimates Australian wheat production at 17.4 million tons, the second highest ever.

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The agricultural attache estimates that wheat exports will reach 15 million tons this marketing year—a 25-percent increase over last year's exports. The attache further estimates that in MY 1986 Australia could very well export 16 million tons of wheat.

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Canberra also intends to increase its investments to port infrastructure to expand its grain exports. According to press reports, in January, Australia completed a government feasibility study on a proposed $142 million grain terminal at Port Kembla. According to the port ministry, the new facility will be able to process 5.6 million tons of grain when completed.

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Australia has the capacity to double its wheat exports—to 30 million tons—by the end of the century.

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In terms of marketing strategies, Canberra is using many of the same tactics as Canada. According to the Australian Wheat Board, price and credit are expected to be major factors in determining sales, and the AWB plans to maximize market penetration in both traditional and new markets.

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[3] Canberra uses a system of price supports to control production with the AWB providing a Guaranteed Minimum Price (GMP) for wheat. Under recently passed marketing legislation for 1984-89, the GMP will be calculated on the average of the lowest two of the previous three years. The GMP is underwritten by the government so that if world prices fall below the GMP, Canberra makes up the difference.

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[redacted] the head of the AWB recently stated that the AWB would attempt to sell more grain to areas where the United States has established markets, such as Egypt, Iraq, and parts of North Africa. The AWB landed its five-year LTA with Egypt for 10 million tons of grain by using three-year credits with a one-year grace period. According to the US Embassy in Cairo, to sweeten the deal further Australia agreed to contribute $4 million toward the construction of a $6.5 million grain silo. The AWB also agreed to bring Egyptians to Australia for training in grain silo management. Last year, to sell wheat to Egypt, the AWB gave Cairo 40,000 tons of bonus wheat; this year, the AWB gave the Egyptian Ministry of Supply 40,000 tons of flour one month before the LTA was signed. [redacted]

[redacted] The agricultural attache in Canberra also identified major markets Australia is likely to target—Southeast Asia, the USSR, and new penetrations in South America:

- In January the AWB reportedly sold Mexico 250,000 to 500,000 tons of feed wheat competitively priced. The AWB penetrated this market for the first time over a year ago by offering 250,000 tons of feed wheat with three-year credit terms when 90- or 180-day credits were the norm.

[redacted]

- According to the US Embassy in Bogota, in December the AWB offered the Colombians $17 million per quarter in revolving trade credits. The Colombian Agricultural Marketing Agency (IDEMA) reportedly is making the necessary legal changes to accept Australian trade credits. [redacted]

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The European Community

Another formidable competitor in grain export markets is the EC, which outproduced the United States in wheat this marketing year. The EC's wheat production hit a record 76 million tons, with yields more than double those of the United States on a sown area of only 13.7 million hectares—half that of the United States. [redacted]

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Largely as a result of its Common Agricultural Policy (CAP), the EC, in the 1980s, has become self-sufficient in the production of wheat, barley, and several other crops. The CAP still uses the system of high support prices, import levies, export subsidies, and supplementary aids, all of which give incentives to EC farmers to increase production. With EC domestic consumption relatively unchanged, this policy has resulted in large surpluses for export. During 1975-79, EC wheat exports averaged 6.1 million tons; in 1980-84, EC wheat exports more than doubled to 12.9 million tons. This year, according to USDA estimates, the EC could export a record 17 million tons [redacted]

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Under the CAP, support prices are politically determined—ministers from the 10 EC countries meet every spring to set prices. When the market price dips below an agreed-on level—the intervention level—everything placed on the market is bought by the EC Commission at that price and stored. According to press reports, EC price incentives have averaged as much as 50 percent above world markets. In 1984, according to EC statistics, the EC's bill for supporting grain farmers was $2 billion. [redacted]

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Export subsidies[1] also are costly. According to the EC Commission, export subsidies for 1984 have cost the EC about $800 million. Some of this, however, is offset by import levies, which raise prices of imported commodities to EC levels and thereby ensure a protected domestic market as well. [redacted]

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[1] Export subsidies make up the difference between EC and world prices and enable farmers to sell on world markets. [redacted]

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The US Embassy in Paris attributes the phenomenal increases in French wheat and corn output and yields primarily to incentives provided by the CAP—high internal support prices and the certainty of finding well-protected EC markets under an umbrella of high import levies. USDA estimates that for MY 1985 French wheat yields approached 6.9 metric tons per hectare—more than two and a half times those of the United States. [redacted] 25X1

The recent EC decision to accept Spain and Portugal as members will only worsen the situation, adding 24 million hectares to EC farmland. With Iberian farmers having lower productivity than EC farmers, accession can be expected to stimulate substantial increases in Spanish and Portuguese farm output over the long run. In the short run, Spain and Portugal—which represent a 4.5-million-ton market for US grain—will provide the EC with another major market outlet, probably at the expense of the United States. [redacted]

The EC's marketing strategy incorporates price competition; the use of credits; and concentration on markets where it sees a transportation advantage, such as the Mediterranean region and the Soviet Union. [redacted]

[redacted] According to US Embassy reports from Brussels, export subsidies enabled EC sellers to set an f.o.b. price of $127 per metric ton for French wheat, compared with an Argentine price of $112 per metric ton and a US gulf price for soft red winter wheat of $142 per metric ton. [redacted]

The EC is actively pursuing the Soviet market. EC sales to Moscow—which totaled 3.8 million tons in MY 1984—already stood at 6 million tons three-fourths of the way through MY 1985. We estimate that total EC grain sales to the Soviet Union could reach 6.5-7 million tons for MY 1985. [redacted]

According to available information, the EC is adopting a new, more aggressive policy to compete with the United States in world grain markets. [redacted]

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[redacted] 25X1

[redacted] 25X1 the EC would bear higher storage costs rather than dump grain on the market. [redacted] 25X1 it is not in Europe's interest to plunge into a trade war with the United States and [redacted] 25X1 the EC cannot possibly export all available additional quantities of grain because there are too few buyers. [redacted] 25X1

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Outlook and Implications

In the aftermath of the US partial grain embargo against Moscow, grain export expansion programs and aggressive export marketing tactics of competitors have led to a sharply declining US share of global grain trade (figure 4). Although the strong dollar this past year probably worsened the situation, the declining trend began in 1980. Indeed, this downward trend is likely to continue for some time regardless of how the dollar performs on the international money markets. [redacted] 25X1

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Overall, our analysis of production and export plans of foreign competitors indicates that the buyer's market is likely to continue for the rest of the decade. Looking ahead to MY 1986, we believe that, barring major weather disasters, US competitors could export 69-72 million tons of wheat. With respect to demand, we examined three possible scenarios (table 3). Our analysis indicates that, while the US share of global coarse grain trade is likely to hold through 1990 at about 55 to 60 percent, the US share of the world wheat market could plummet in MY 1986 to about 30 percent—some 7-10 million tons less than the already

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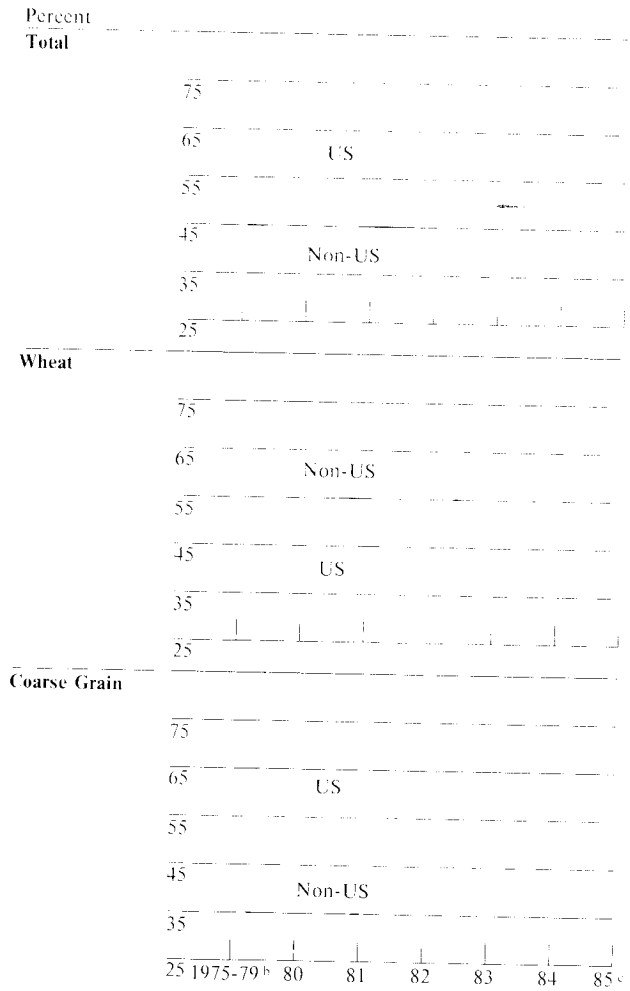
Figure 4
Global Grain Trade, 1975-85[a]



[a] All years are marketing years (1 July–30 June). For example, 1985 refers to 1 July 1984–30 June 1985.

[b] Average.

[c] Estimated.

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low level of US exports in MY 1985.[5] This assumes what we believe to be the most likely case—Soviet grain imports returning to MY 1983 and MY 1984 levels of just over 30 million tons and 2-percent growth in demand elsewhere. Furthermore, barring major weather disasters, foreign competitor export policies could, according to our analysis, cause US wheat exports to drop to as little as 25 percent by 1990, unless these marketing strategies are aggressively offset. If major competitors experience serious crop failures, US wheat exports could remain in the low 30-percent range. Nonetheless, American farmers could see their traditional markets erode through the remainder of the decade.

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Also, we believe that any existing strains between the United States and its allies could be stressed further as a result of slow growth in world grain markets and aggressive export actions by US allies. Relations with Canada and Australia may be tested; and, while the EC reportedly wants to avoid a trade war with the United States, it is unlikely to back away from its aggressive tactics in US markets. Indeed, with a record stock buildup this year, the EC, in our opinion, may even attempt to match some US grain export initiatives.

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In the 1980s, only the less developed countries are likely to continue to increase their grain imports, albeit at a slower rate than in the 1970s. The LDCs are the major grain import region with demand totaling about 90 million tons or 45 percent of the world market. Indeed, we believe the LDCs will benefit from keen competition in the grain market for some years to come as long as production by the major grain producers reflects primarily political decisions to support farmers' incomes rather than policies based on effective demand. LDCs probably can be assured a bargaining advantage in negotiating grain purchases as competitors scramble for sales through the remainder of the decade. Low grain prices will be the major benefit, but the extended use of credits of two to three years' duration is likely to become more prevalent. As LDCs increasingly make use of long-term credits to purchase grain, their financial problems may be compounded in the latter part of the 1980s when rescheduled debt payments and grain credit payments begin to come due.

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[5] US wheat exports are likely to be 39 million tons in MY 1985, according to USDA.

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Table 3
Possible Scenarios: Potential US Share of Wheat Market, Marketing Year 1986 [a]

Scenarios [b]	Global Wheat Trade (*million metric tons*)	Global Share of Wheat Market					
		United States [c]		Major Competitors [d]		Other	
		Million metric tons	*Percent*	*Million metric tons*	*Percent*	*Million metric tons*	*Percent*
Soviet demand returns to average levels, all other demand grows by 2 percent	102	30-33	29-32	64-67	63-66	5	5
Overall demand grows by 2 percent	108	36-39	33-36	64-67	59-62	5	5
Lower prices and/or poor weather for grain-importing countries leads to a 5-percent increase in demand	112	40-43	36-39	64-67	57-60	5	4

[a] 1 July 1985–30 June 1986.
[b] Demand scenarios are listed from most likely to least likely to occur.
[c] In MY 1985 the United States likely will export 40 million tons of wheat, a 37-percent share of the global wheat market.
[d] Canada, Australia, Argentina, and the European Community.

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Finally, with competitor grain policies built around rapid expansion in production and trade, Moscow in the 1980s can count on non-US suppliers for the bulk of its grain imports. Thus, any remaining Soviet dependence on US grain is likely to diminish in the 1980s. Indeed, should Gorbachev succeed in improving Soviet agriculture and sharply cut grain imports from levels of recent years, the US situation—in terms of reduced markets—could deteriorate further.

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